

WHAT MAY CHANGE AND WHAT WILL NOT CHANGE

Although successful implementation of the CSSI may necessitate changing our procurement and contracting practices, such changes will be made within the framework of the state's procurement and contracting laws and regulations. The DGS will continue the state's commitment to treating all of our suppliers with fairness and integrity by preserving the principles that govern our current procurement and contracting practices.

Most importantly, implementation of the CSSI will not diminish the state's commitment to ensuring maximum opportunities for SB/DVBEs to compete for procurement and contract awards for which they qualify.

To achieve maximum savings, however, our current procurement and contracting practices and processes will be improved as necessary. Examples of potential improvements include:

- Implementing a standardized procurement process based on strategic sourcing principles across all departments to achieve greater efficiencies and facilitate effective data retrieval of statewide procurement and contracting activity;
- Implementing more rigorous processes designed to improve current practices;
- Implementing improvements designed to increase opportunities for more suppliers to do business with the state.

During the initial stages, the CSSI Team is limiting its focus to specific categories of goods and services that are identified as offering significant savings potential through strategic sourcing.

CLEAR COMMUNICATION IS CRITICAL

The CSSI Team is committed to providing clear communication with respect to its progress. This will not be just one-way communication from the team to the rest of the state. Inasmuch as the state may negotiate new contracts, renegotiate other contracts and combine multiple contracts, resulting in necessary process changes and the introduction of new tools to procure goods and services, the team will work statewide with all of the agencies and Procurement and Contracting Officers (PCOs) to solicit input and to provide information sessions and essential training.

In fact, the CSSI Team is dedicated to providing information to *all* interested parties and to supporting *all* of the staff that will be impacted. The team's website at www.pd.dgs.ca.gov/stratsourcing and help desk at 1-866-885-8344 provide the latest information. In addition, the team will provide a more in-depth presentation about the project at a special Customer Forum for the DGS employees in the Ziggurat auditorium in West Sacramento. More information regarding the Forum, scheduled for November 10, 2004 at 1:30–3:00 p.m. will be announced through an E-mail broadcast to all agency PCOs.



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CSSI Times

A NEWSLETTER FOR DGS EMPLOYEES



PROJECT BACKGROUND

The purchasing organization in a typical company usually is responsible for spending over half the company's sales dollar, and in many companies as much as 70 percent. How well or how poorly the organization carries out its responsibilities directly impacts the company's bottom line.

This has always been the case. In spite of this fact, in the not-too-distant past, corporations across America relegated their purchasing organizations to second-class status. It was a time when most purchasing organizations were not players in their respective company's strategic planning. Too often they were the last to know what they were supposed to be buying and the first to be blamed when things went wrong.

Enter a New Era

Corporate America had to change if it was going to compete in the global marketplace. And it has changed. Today, one of the most important disciplines practiced by virtually every major company is called "Strategic Sourcing." What is the company's overall strategic objective? What does it need to bring its product to the marketplace at competitive prices, and how will its suppliers contribute to making the strategic objective become a reality? Companies are saying, "Let's get our suppliers involved early and let's listen to them as we work together toward leveraging our buying power for our long-term needs to achieve maximum efficiencies, high quality and cost reductions."

The suppliers knew even less about their customers' overall strategic objectives. They knew little more than their customers' short-term needs. Suppliers would plead, "If you could just tell us what you need over the long term and make a serious commitment to those needs, we can help drive your costs down." But the typical company rarely shared such information with its suppliers and even more rarely asked them to sit at the planning table and contribute their innovative ideas, knowledge and expertise in helping to formulate and achieve the company's objectives.

Purchasing was merely an order processing activity and suppliers, merely order takers. Without a thoroughly planned and well-executed strategic direction that included all of the players in its formulation, it was an expensive way to operate.

It was expensive for both manufacturers and service providers. They failed to ask the critical questions: What will we need and when will we need it? Who will provide it at the lowest overall cost? Is there a better way that we don't know about, but our suppliers *do* know about?

Strategic Sourcing & the State of California

In response to the findings and recommendations of the recently completed California Performance Review (CPR), the State of California has joined the parade toward strategic sourcing, and the Department of General Services (DGS) is leading the way. Supported at the highest level by State and Consumer Services Agency Secretary, Fred Aguiar, DGS Director, Ron Joseph, and Rita Hamilton, DGS Deputy Director of Procurement, Russ Guarna is the DGS California Strategic Sourcing Initiative Project Director. With the objective of providing the citizens of California with the very best goods and services possible at the lowest costs attainable, Russ will oversee the identification of strategic sourcing opportunities and execution of the actions necessary to establish strategic sources.

Russ and the rest of the California Strategic Sourcing Initiative team will be particularly sensitive to ensuring fair and equitable source selection decisions within the framework of the sound business practices set forth in the state's procurement rules and regulations. They will also work to ensure that the state's objectives with respect to awarding procurements and contracts to Small Businesses/Disabled Veteran Business Enterprises (SB/DVBEs) are not compromised.

There is a lot at stake because the potential payoff is tremendous. As stated in the governor's June 24, 2004 press release,

"Strategic sourcing is a way to achieve significant savings by streamlining procurement activities by consolidating, renegotiating and automating contracts. By consolidating purchasing power in one entity, instead of hundreds of separate state departments, boards and commissions, the state may realize savings of up to 15 percent per year on everything from laser printers to pharmaceuticals."



Given our current fiscal crisis, we need to take full advantage of California's purchasing power to get the best service and the best products for the best price. We will save millions of dollars just by being smarter about how we buy things.

—Governor Arnold Schwarzenegger, from the governor's June 24, 2004, press release announcing the California Strategic Sourcing Initiative.

WHAT IS STRATEGIC SOURCING?

Strategic Sourcing is an approach where the buyer (California) analyzes what it's buying, what the market conditions are and who can supply those goods and services. Then the buyer uses that information—plus innovative contracting techniques—to find the best values available in the marketplace.

CSSI PROJECT TIMELINE

The CSSI Team officially convened in June 2004 with the long-term commitment to ensuring that California's program will emerge as one of the best in the nation.

Phase I

The team has concluded Phase I, which included:

- Establishing needs projections for goods and services;
- Analyzing market conditions, including performing a thorough analysis of the potential resources available in the marketplace to provide the state's goods and services requirements.

The team has also analyzed the state's current spend data—the total contract and procurement commitment dollars spent for goods and services. With this assessment, the team has identified several potential significant savings opportunities through establishing strategic sourcing arrangements.

Phase II

Phase II recently began and involves awarding strategic procurements for the selected goods and services categories that the team has identified as offering the greatest potential for savings.

The categories will be implemented in two waves. Wave I will include the implementation of nine categories, consisting of:

- Office Equipment
- Telecommunications Equipment and Services
- IT Hardware
- Vehicles
- Medical Products
- MRO—Supplies
- Office Supplies
- IT Services
- Medical Services



Wave II will include the implementation of seven categories, consisting of:

- Commercial Services
- Food and Beverages
- Professional Services
- Personnel Related Services

This critical phase is expected to last three to five years; however, the team expects that initial savings will be realized as early as the first quarter of next year.

The team will continue to focus on identifying opportunities for implementing measures for continuous improvement of the state's internal procurement and contracting functions and processes. This is a key component of ensuring the success of our strategic sourcing efforts.

Three Year Project Outlook

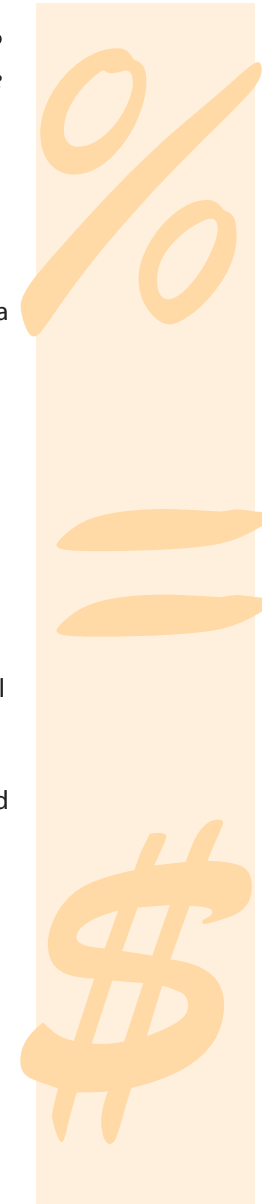
| September 04 | | January – February 05 | | June – July 05 | |
|---|--|---|--|---|--|
| Phase I 45 days | | Phase II 4+ months depending on category | | | |
| Opportunity Assessment | | Wave I Sourcing Opportunities | | Wave II Sourcing Opportunities | |
| | | | | | |
| Communications and Change Management — Internal Stakeholders and External Vendors | | | |  | |
| | | Savings Collection | |  | |
| | | | | | |
| Team CGI-AMS Role | | | | State of California Role | |

DO THE MATH...

“...the state may realize savings of up to 15 percent per year on everything from laser printers to pharmaceuticals.”
—From the governor's June 24, 2004 California Strategic Sourcing Initiative press release.

Inasmuch as the State of California currently spends more than \$4 billion annually on goods and services, an annual savings of 15 percent realized through strategic sourcing would be well over a hefty \$600 million.

Sounds ambitious. And it is. But our objective is to aim high with every expectation that we will achieve impressive savings through strategic sourcing. In fact, the governor's 2004-2005 budget identifies a target of \$96 million in savings in the next fiscal year.



THE CALIFORNIA STRATEGIC SOURCING INITIATIVE (CSSI) TEAM

Individuals from the State of California and their consultant, CGI-AMS comprise the CSSI Team. The team members work collaboratively to identify and implement ways to better leverage buying power the state spend on goods and services. The leveraging of the state spend, estimated at over \$4 billion, is based on economies of scale and private industry best practices.

As team members, CGI-AMS will support the state in identifying opportunities to negotiate new agreements with suppliers and implement other improvements to drive cost reductions and efficiency improvements. The agreements will result in greater value per taxpayer dollar for professional services and goods ranging from office supplies to vehicles.

Originally, the CSSI team members from the state were comprised of only the DGS staff. As of September 29, 2004, the team expanded to include staff from other state agencies and departments who possess the knowledge, skills and abilities in various areas. The following state agencies and departments have been very supportive of the CSSI effort and have graciously provided some of their staff for a period of four to six months to assist with Phase II of the CSSI:

- California Department of Corrections (CDC)
- California Youth Authority (CYA)
- Department of Motor Vehicles (DMV)
- Department of Social Services (DSS)
- Department of Transportation (DOT)
- Department of Water Resources (DWR)
- Employment Development Department (EDD)
- Franchise Tax Board (FTB)
- Health and Human Services Data Center (HHSDC)
- Prison Industry Authority (PIA)
- Teale Data Center



CSSI KICKOFF MEETING

On September 29, 2004, the Department of General Services (DGS) and CGI-AMS jointly held a CSSI Kickoff Meeting to welcome the new project team members from the DGS, Procurement Division and those from other state agencies and departments. Mr. Clark Kelso, CIO, State of California, Mr. Ron Joseph, and Ms. Rita Hamilton provided opening remarks and Mr. Russ Guarna and Mr. Tony Han, Program Manager, CGI-AMS provided an overview and progress report of the CSSI. The meeting gave attendees the opportunity to meet others involved in the project and those on their respective teams. Overall, the CSSI Kickoff Meeting was a huge success. The new team members are now on board and all teams have begun sourcing activities.